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National Dairy Products Corporation

NEW YORK

ANNUAL REPORT

1934

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ANNUAL REPORT

1934

National Dairy Products Corporation

DIRECTORS

F. J. ANDRE
President, The Telling-Belle Vernon Company, Cleveland

HENRY N. BRAWNER, JR.
President, Chestnut Farms-Chevy Chase Dairy Company, Washington, D. C.

HENRY W. BREYER, JR.
Formerly President, Breyer Ice Cream Company, Philadelphia

FREDERICK J. BRIDGES
President, Hydrox Corporation, Chicago

N. J. DESSERT
Vice-President, Detroit Creamery Company, Detroit

C. WESLEY EBLING
President, Detroit Creamery Company, Detroit

E. J. FINNERAN
Director of Sales and Advertising

JOSEPH GILFILLAN
Attorney, Philadelphia

ROBERT S. GORDON
General Counsel

B. S. HALSEY
Vice-President, Sheffield Farms Company, Inc., New York

J. M. HARDING
President, Harding Cream Company, Omaha

VERNON F. HOVEY
President, General Ice Cream Corporation, Schenectady

GEORGE S. JACKSON
President, Western Maryland Dairy Corporation, Baltimore

JOS. L. JONES
Treasurer, Supplee-Wills-Jones Milk Company, Philadelphia

J. L. KRAFT
President, Kraft-Phenix Cheese Corporation, Chicago

JOHN H. KRAFT
Vice-President, Kraft-Phenix Cheese Corporation, Chicago

ROBERT LEHMAN
Banker, New York

B. M. LIDE, JR.
President, St. Louis Dairy Company, St. Louis

WILLIAM F. LUICK
President, Luick Ice Cream Company, Milwaukee

E. J. MATHER
President, Southern Dairies, Inc., Washington, D. C.

THOS. H. MCINNERNEY
President

P. P. MILLER
Vice-President and Treasurer, General Ice Cream Corporation, Schenectady

EDWARD E. RIECK
Chairman of Board, Rieck-McJunkin Dairy Company, Pittsburgh

WILBUR S. SCOTT
President, Breyer Ice Cream Company, Philadelphia

A. A. STICKLER
Treasurer

HORACE S. TUTHILL
Vice-President, Sheffield Farms Company, Inc., New York

L. A. VAN BOMEL
President, Sheffield Farms Company, Inc., New York

SIDNEY J. WEINBERG
Banker, New York

H. BURTON WILKERSON
President, Nashville Pure Milk Company, Nashville

FRANK A. WILLS
President, Supplee-Wills-Jones Milk Company, Philadelphia

HENRY N. WOOLMAN
Secretary, Supplee-Wills-Jones Milk Company, Philadelphia

Each company named above is an operating company of
National Dairy Products Corporation

National Dairy Products Corporation

OFFICERS

Thos. H. McInnerney	*President*
Frederick J. Bridges	*Vice-President*
Vernon F. Hovey	*Vice-President*
Wilbur S. Scott	*Vice-President*
L. A. Van Bomel	*Vice-President*
A. A. Stickler	*Treasurer*
Thos. K. Carnes	*Secretary*
A. Boag, Jr.	*Comptroller and Assistant Treasurer*
G. W. McGhee	*Assistant Secretary*
E. J. Finneran	*Director of Sales and Advertising*
Robert S. Gordon	*General Counsel*

EXECUTIVE COMMITTEE

Thos. H. McInnerney

Vernon F. Hovey — Wilbur S. Scott

L. A. Van Bomel

TRANSFER AGENT

Bankers Trust Company
New York, N. Y.

REGISTRAR

The Chase National Bank
of the City of New York
New York, N. Y.

COUNSEL

Sullivan & Cromwell

AUDITORS

Price, Waterhouse & Co.

EXECUTIVE OFFICES

120 Broadway, New York, N. Y.

National Dairy Products Corporation

New York, N. Y., March 14, 1935.

To the Stockholders:

There is submitted herewith the annual report of National Dairy Products Corporation for the year ending December 31, 1934. Messrs. Price, Waterhouse & Co. have examined the books and accounts of the Corporation and its subsidiary companies and their certificate is appended.

These statements show that net profits for the year, after interest, depreciation and all State and Federal taxes amounted to $6,551,930.29 and, after allowing for payment of preferred dividends, were equivalent to $.93 per share on the 6,263,165 shares of common stock outstanding at the end of the year as compared with $1.01 per share in 1933. Profit for the year 1934 amounted to slightly less than 2½ cents per dollar of sales.

Sales during 1934 were $267,414,547.57, as compared with $231,196,979.72 in 1933, an increase of 15.6%. Advertising expense amounted to $6,500,000 in 1934, an increase of about $1,650,000 over the previous year. Of this increase $600,000 represents advertising expenses deferred at the end of 1933, and $1,050,000 represents additional advertising expenditures in 1934. No advertising expense was deferred at the end of 1934. It is felt that this increased outlay, together with the aggressive efforts of our sales departments, was responsible for a considerable portion of our increase in business.

The increase of 15.6% ($36,217,567.85) in sales did not result in increased earnings because of higher unit prices paid the farmer for milk, increases in payroll due in part to the NRA, added cost of materials and supplies, and substantially higher taxes. Taxes paid directly to Federal, State and local governments amounted to 19% of earnings in 1931, 25% in 1932, 35% in 1933, and 38% in 1934. This increasing tax burden has been a steadily mounting drain on the income available for our 71,000 stockholders.

These unavoidable increases in cost of doing business were larger than the increase in sales, particularly in the fluid milk divisions. A further obstacle encountered by milk distributing companies resulted from attempted governmental control of this branch of the industry in many markets. Government agencies fixed minimum prices milk companies were to pay the farmer for milk, and, as a rule, the resale price of milk to the consumer. Violations and evasions of these regulations were and are numerous, and prosecution of violators has not been effective. Under such conditions, responsible companies complying with these governmental regulations are placed at a substantial disadvantage.

During the past eighteen months there have been sporadic attacks on milk distributing companies, not only by well-meaning but misinformed individuals, but also by irresponsible publicity seekers who may know, but will not recognize, the necessary costs the distributor must pay to process and deliver a bottle of milk. Incorrect statements by such individuals have created an impression in the minds of consumers in some cities that they are being over-charged for milk. This state of mind naturally is not conducive to increased per capita consumption of milk. There can be no question that this maligning has been detrimental to the whole industry, and particularly to the dairy farmer, who can receive his largest income only when milk consumption is at its maximum.

The handling of a large volume of milk by your company benefits both producers and consumers, for volume is essential to low unit costs in merchandising dairy products. Repeated investigations have shown that administrative costs of the larger operating companies are less per

unit than in smaller companies. (Administrative costs in the National Dairy divisions are lower today than at the time they became a part of National Dairy.) It is obvious, however, that when profits have been reduced to less than 3% of sales, efforts of manufacturers and distributors to make further progress in the industry . . . to benefit both the farmer and consumer . . . become increasingly difficult.

Throughout the last four years total volume of business has been well maintained, and, as a result, the rate of employment in your company has been much higher than in most other lines of industry. Other pertinent information about the company and the dairy industry are included in the pages following the financial statements.

The attached balance sheet shows a strong financial position. During the year the subsidiary companies' funded and mortgage debt due in 1934 was retired, and, in addition, the balance of the $639,500 of 8% preferred stock outstanding at the beginning of the year of Chapin Sacks Corporation, a subsidiary of Southern Dairies, Inc., was called for redemption and retired on February 1, 1935. The inventory item is shown at the lower figure of cost or market, although market values at the end of the year were generally in excess of cost.

Plant and equipment have been maintained in their usual good condition. During the year a new plant was built in Detroit and extensive modernization of buildings and equipment was completed in Pittsburgh, greater New York City and Springfield, Massachusetts. Expansion and growth of the Kraft-Phenix Cheese division required substantial building programs, particularly on the west coast and in Texas. Total expenditures for plant and equipment amounted to $6,686,000 during the year.

No changes have been made in depreciation rates during 1934. The same rates are being continued in 1935 except for trucks, passenger cars and tank cars, in which cases rates are being somewhat increased.

At this time the Board of Directors desires to thank the 34,000 employees and executives of our operating companies for their vigorous efforts in National Dairy's behalf during the year just closed.

By order of the Board of Directors,

THOS. H. MCINNERNEY,
President.

National Dairy

AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

Assets

Current and Working Assets:			
Cash in banks and on hand		$ 21,721,488.83	
Marketable securities at cost, less reserve for market depreciation		175,679.25	
Notes receivable	$ 1,151,276.41		
Accounts receivable	16,762,947.74		
	$17,914,224.15		
Less—Reserve for doubtful notes and accounts	2,859,433.38	15,054,790.77	
Inventories at cost or market, whichever is lower		16,715,249.11	
Miscellaneous supplies		2,808,686.47	
Cash surrender value of life insurance		207,400.11	
			$ 56,683,294.54
Investments and Advances:			
Company's common stock—8,662 shares at cost		$ 200,486.91	
Investments in and advances to partly owned companies and miscellaneous securities (including securities on deposit with State insurance departments)		2,142,329.64	
Other notes and accounts receivable, less reserve		1,353,448.57	
Funds subject to withdrawal restrictions and deposits in closed banks, less reserve		320,046.07	
Loans to employees, less reserve		1,559,149.15	
			5,575,460.34
Capital Assets:			
Land, buildings, machinery and equipment on basis of cost or sound values as appraised with additions at cost, less adjustments written off		$162,993,866.04	
Less—Reserves for depreciation		57,918,130.29	
			105,075,735.75
Deferred Charges:			
Prepaid taxes, insurance, interest, etc.		$ 503,402.46	
Sundry expenses		145,689.76	
			649,092.22
Goodwill			22,391,853.64
			$190,375,436.49

Products Corporation

COMPANIES

DECEMBER 31, 1934

Liabilities

Current Liabilities:			
Accounts payable including sundry accruals		$ 15,902,279.74	
Reserve for Federal taxes		1,618,400.00	
Preferred stock of subsidiary company, called for redemption February 1, 1935, including premium		622,050.00	
			$ 18,142,729.74
Reserves for Contingencies			1,205,658.56
National Dairy Products Corporation 5¼% Gold Debentures due 1948:			
(Annual purchase fund requirement $2,462,000 principal amount)			
Issued		$ 82,040,500.00	
Less—Retired	$12,508,000.00		
Held in treasury	1,318,000.00	13,826,000.00	
			68,214,500.00
Minority Stockholders' Interest in Subsidiary Companies			1,093,351.65
(Including preferred stock of Western Maryland Dairy Corporation, preferred over common on liquidation up to $2,012,500, carried on books at $546,694.84)			
Capital Stock and Capital Surplus:			
Preferred stock Class A 7% cumulative: Authorized—69,244 shares of $100 each Issued less retired—57,339 shares		$ 5,733,900.00	
Preferred stock Class B 7% cumulative: Authorized—50,000 shares of $100 each Issued less retired—41,370 shares		4,137,000.00	
Common stock and capital surplus:			
Common stock— Authorized—7,000,000 shares without par value Issued—6,263,165 shares at stated value		51,331,710.00	
Capital surplus, per statement attached		5,515,801.08	
			66,718,411.08
Earned Surplus, per statement attached			35,000,785.46
			$190,375,436.49

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Year Ending December 31, 1934

Net sales (excluding inter-company sales)		$267,414,547.57
Deduct:		
Cost of sales, delivery, selling, administrative and general expenses	$239,793,452.99	
Repairs and maintenance	8,897,681.91	
Depreciation	8,000,739.40	
		256,691,874.30
		$ 10,722,673.27
Other income:		
Purchase discounts	$ 541,004.78	
Dividends and interest received	271,106.99	
Rents and royalties	328,872.58	
Miscellaneous other income	330,079.25	
		1,471,063.60
		$ 12,193,736.87
Deduct:		
Interest on funded debt of National Dairy Products Corporation	$ 3,626,579.38	
Other interest	104,268.29	
Organization expenses incurred during the year	43,835.57	
Dividends on preferred stock of subsidiary companies held by the public	170,423.34	
Federal capital stock tax	292,700.00	
		4,237,806.58
Profit before provision for Federal income tax		$ 7,955,930.29
Provision for Federal income tax		1,404,000.00
Net profit for the year		$ 6,551,930.29

Note: The net profit, after deducting dividends of $692,226.88 on the parent company's preferred stocks, was equivalent to $.93 per share on 6,263,165 shares common stock outstanding.

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the Year Ending December 31, 1934

Earned surplus at December 31, 1933, per published report for that year		$36,629,764.65
Add—Net profit for 1934, per statement attached		6,551,930.29
		$43,181,694.94
Add—Discount on redemption of funded debt		16,664.00
		$43,198,358.94
Deduct—Dividends paid:		
On preferred stocks at $7.00 per share	$ 692,226.88	
On common stock:		
April 2, 1934—30¢ per share	$1,876,323.90	
July 2, 1934—30¢ per share	1,876,323.90	
October 1, 1934—30¢ per share	1,876,347.90	
January 2, 1935—30¢ per share	1,876,350.90	
	7,505,346.60	
		8,197,573.48
Earned surplus at December 31, 1934, per balance sheet		$35,000,785.46

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

For the Year Ending December 31, 1934

Capital surplus at December 31, 1933, per published report for that year.....		$8,891,401.53
Deduct:		
Provision for adjustment of land and property accounts of Southern Dairies, Inc.....	$2,721,160.82	
Goodwill purchased written off.....	600,008.08	
Premium on preferred stock of subsidiary company called for redemption.....	54,431.55	
		3,375,600.45
Capital surplus at December 31, 1934, per balance sheet.....		$5,515,801.08

TO THE BOARD OF DIRECTORS OF
NATIONAL DAIRY PRODUCTS CORPORATION.

We have made an examination of the consolidated balance sheet of National Dairy Products Corporation and its subsidiary companies as at December 31, 1934 and of the consolidated statements of profit and loss and surplus for the year 1934. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies during the year under review, the combined position of National Dairy Products Corporation and its subsidiary companies as at December 31, 1934, and the combined results of their operations for the year.

PRICE, WATERHOUSE & CO.

56 Pine St.,
New York,
March 14, 1935.

THE TREND OF FARM INCOME

Milk has long been the largest single source of farm income in the United States. During the years 1930, 1931 and 1932, when all agricultural income was greatly reduced, the farmers' return from milk production was maintained at much higher levels than prevailed for agriculture as a whole. The following table, showing the percentage declines in total farm income and in dairy farm income from their averages for the four years 1925-1928, clearly brings out this fact.

	TOTAL FARM INCOME		DAIRY FARM INCOME		Percent Dairy Farm to Total Farm Income
	Millions of Dollars	Percent of 1925-28 Avge.	Millions of Dollars	Percent of 1925-28 Avge.	
1925.....	12,043	102.3	1,759	94.2	14.6
1926.....	11,550	98.1	1,805	96.7	15.6
1927.....	11,699	99.4	1,911	102.3	16.3
1928.....	11,798	100.2	1,994	106.8	16.9
1929.....	11,917	101.2	2,323	124.4	19.5
1930.....	9,414	80.0	2,031	108.8	21.6
1931.....	6,959	59.1	1,614	86.4	23.2
1932.....	5,324	45.2	1,260	67.5	23.7
1933.....	6,242	53.0	1,263	67.6	20.2

NOTE—Farm income statistics for 1929 through 1933 have been revised without a similar revision for the years prior to 1929. Although the two series are not strictly comparable, they portray with reasonable accuracy the trend of farm income. Rental and benefit payments of $271,000,000 are included in Total Farm Income for 1933. Complete data for 1934 was not obtainable from the U. S. Department of Agriculture.

During the World War agriculture enjoyed an unusual period of prosperity which was not maintained in the post-war years of the twenties. During the four years 1925-1928, total farm income averaged 11.2% of the total national income. The following figures, prepared by the Bureau of Agricultural Economics, indicate the percentages of total national income received by farmers since 1929.

1929.....10.4%	1932..... 7.5%
1930..... 8.7%	1933..... 9.9%
1931..... 7.7%	1934.....10.2%

It will be noted that farm income did not suffer marked declines in comparison with its 1925-1928 average until 1930. Since 1932 the increase in agriculture's share of total national income has been substantial.

EFFECT OF MILK PRODUCTION ON DAIRY FARM INCOME

Milk production declined during 1934, which, coupled with some increase in the consumption of milk products, brought supply into better relation with demand. As would be expected, a normal increase in the selling prices of milk and milk products occurred which resulted in the farmers receiving higher prices for their milk. Two reasons caused this decline in production.

First, the number of milk cows decreased from about 26,185,000 head in January, 1934, to 25,100,000 in January, 1935. This was the first twelve months showing a decline in cow numbers since 1928. On January 1st of every year from 1928 to 1934 government estimates showed an increase in cow population over the previous year. This increased supply of milk cows had drastically reduced their market value by the beginning of 1934. Therefore, farmers began to cull poorer milk producing cows from their herds in increasing numbers during the latter part of 1933 and the first part of 1934 in accordance with the usual working of the law of supply and demand. Last summer's drought further reduced the size of herds, as did the subsequent purchase of cattle by the government for relief purposes.

Second, milk production per cow also declined. During the six years cow population increased, many inefficient cows, producing small amounts of milk, remained in herds when they should have been eliminated. The cumulative effect of this condition was probably partially responsible for the downward trend in average production per cow that has been noticeable for the last four years. Last year's drought also greatly reduced the feed crop. As the price of feed increased, farmers reduced the ration fed cows, which materially curtailed production per cow.

These normal adjustments, brought about primarily by the action of the law of supply and demand, accentuated by the drought, are chiefly responsible for the increase in dairy farm income. Although the higher prices received by dairy farmers for milk are now offset to some extent by the high cost of feed grains, these high costs should not continue after the next pasture season, so that net farm income from milk production, after deducting feed costs, may show further increases in 1935.

POUNDS OF MILK HANDLED BY NATIONAL DAIRY

Although your company sells Miracle Whip, mayonnaise and other Kraft salad dressings, eggs, and other products containing no milk, its chief business is processing and marketing dairy

products. The following table shows the number of pounds of milk of 3.5% butterfat (1 quart equals 2.15 pounds) required for the fluid milk, cream, ice cream, cheese, butter, and other dairy products National Dairy sold. The table brings out the relative stability of your company's total volume of business during the last four years, and the increase in volume during 1934, particularly in the last two quarters of the year.

	1931	1932	1933	1934
1st Quarter	2,016,294,000	1,974,271,000	1,856,462,000	1,909,752,000
2nd "	2,300,016,000	2,164,424,000	2,095,758,000	2,086,179,000
3rd "	2,325,132,000	2,204,934,000	2,069,879,000	2,220,611,000
4th "	1,993,331,000	1,948,457,000	1,868,587,000	2,060,362,000
Total for year	8,634,773,000	8,292,086,000	7,890,686,000	8,276,904,000
% of 1931 volume sold each year	100.0%	96.0%	91.3%	95.8%

During the year 1933, the last year for which data is available, the total amount of milk consumed in the United States amounted to 100,381,000,000 pounds, of which your company handled slightly less than 8%.

NATIONAL DAIRY'S RATE OF EMPLOYMENT

The accompanying table shows the number of employees as at the end of each quarter for the last four years. Employees increase in number each summer because of the regular seasonal increase in ice cream sales volume. The contra-seasonal increase in employees as at September 30, 1933, was primarily due to your company's compliance with the Administration's NRA program.

	1931	1932	1933	1934
As at: Mar. 31	35,159	32,929	29,880	33,235
June 30	36,680	34,719	32,524	37,709
Sept. 30	34,920	32,893	33,607	35,263
Dec. 31	32,436	30,056	32,073	33,235
% of 1931 Employment on Annual Basis	100.0%	94.0%	91.2%	99.8%

The year 1930 was the best year in your company's history; there was practically no decrease in employees from 1930 to 1931. During most of 1934, employment was at as high a level as existed in either 1930 or 1931, due to three reasons.

First, there was an appreciable increase in volume of milk products handled over 1933. Second, the full effect of your company's cooperation with the spirit of the NRA was felt for the first time. Third, there has been an increasing trend during the last four years in consumer demand for packaged products, which requires more factory labor, as well as a gradual expansion in the size of the markets National Dairy divisions serve.

NUMBER OF NATIONAL DAIRY COMMON STOCKHOLDERS

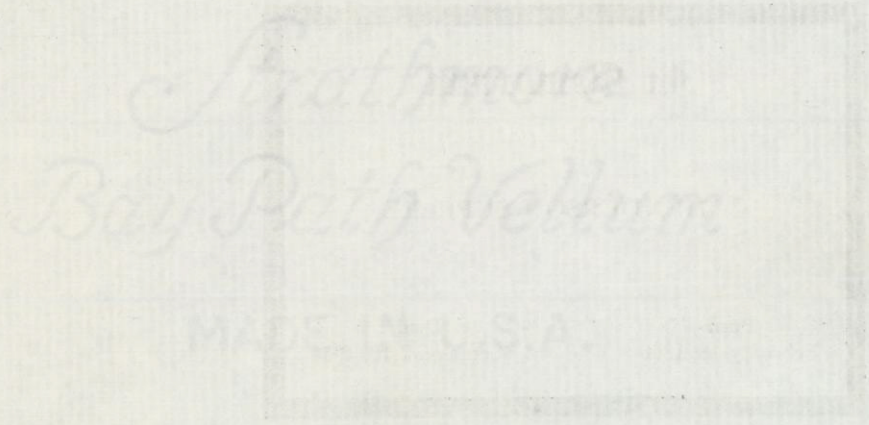
	1931	1932	1933	1934
March 31	46,219	59,212	66,885	69,058
June 30	50,117	61,758	66,366	69,683
Sept. 30	54,196	63,474	66,366	70,818
Dec. 31	58,159	65,705	68,890	71,606

In Memoriam

C. HENDERSON SUPPLEE

Born
February 18, 1860

Died
September 10, 1934


Strathmore
Bay Path Vellum
MADE IN U.S.A.